Transport Capital Partners, LLC

Business Expectations Survey

Third Quarter 2011

Transport Capital Partners

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Business Expectations Survey Results
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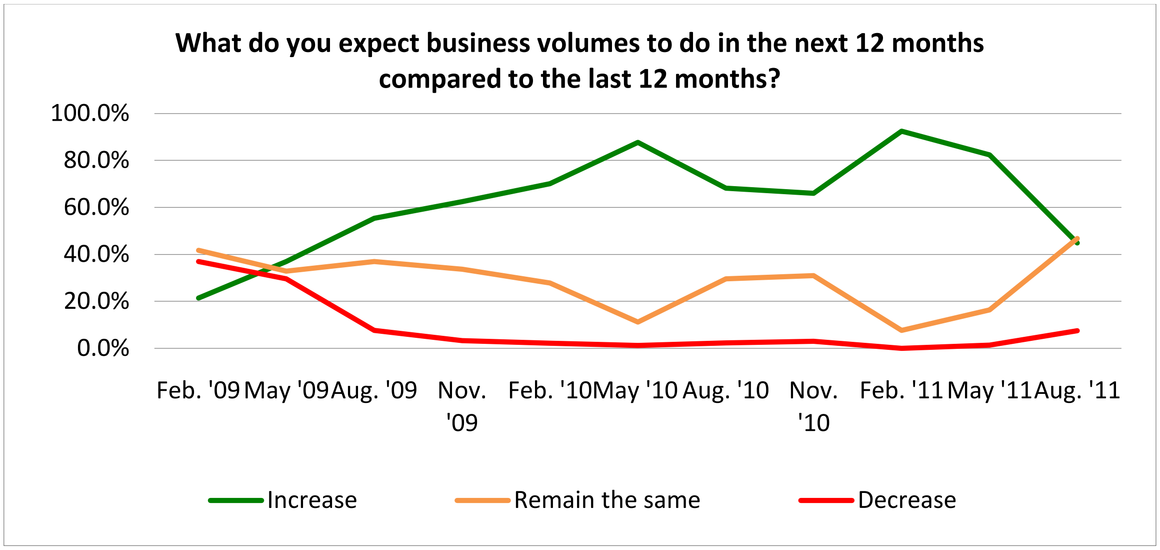
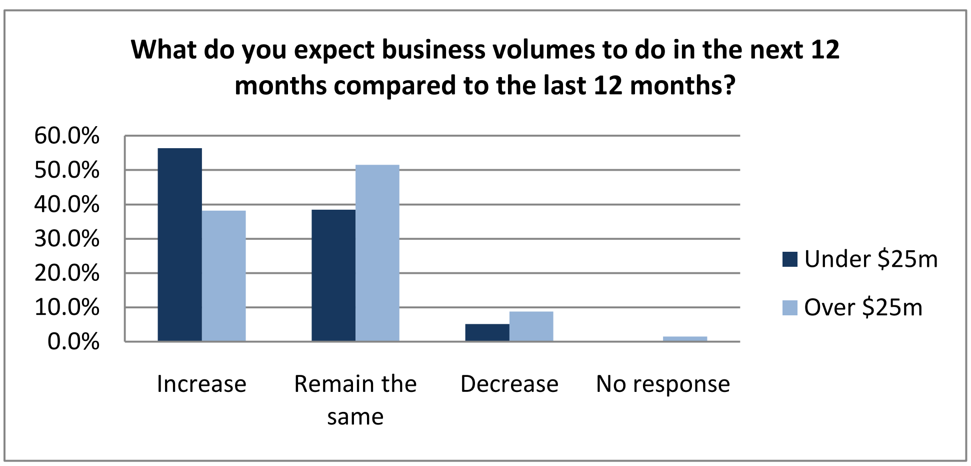
Started in the 2nd Quarter of 2008, Transport Capital Partners' (TCP) quarterly Business Expectation Survey (BES) has become a frequently quoted bellwether indicator of the American trucking industry by taking the pulse of its executives across the country. The survey asks trucking company executives core questions every quarter on recent rate trends, future volume and rate expectations, and interest in buying or selling their firms in the future. Topical questions are also incorporated in each survey with past topics including: credit and financing, equipment issues and plans, drivers, new regulations, trade cycles, and on other fleet sentiment opportunities and concerns. This is coupled with observations of TCP's partners and associates engaged in advisory activities within the industry.

Graph 1A



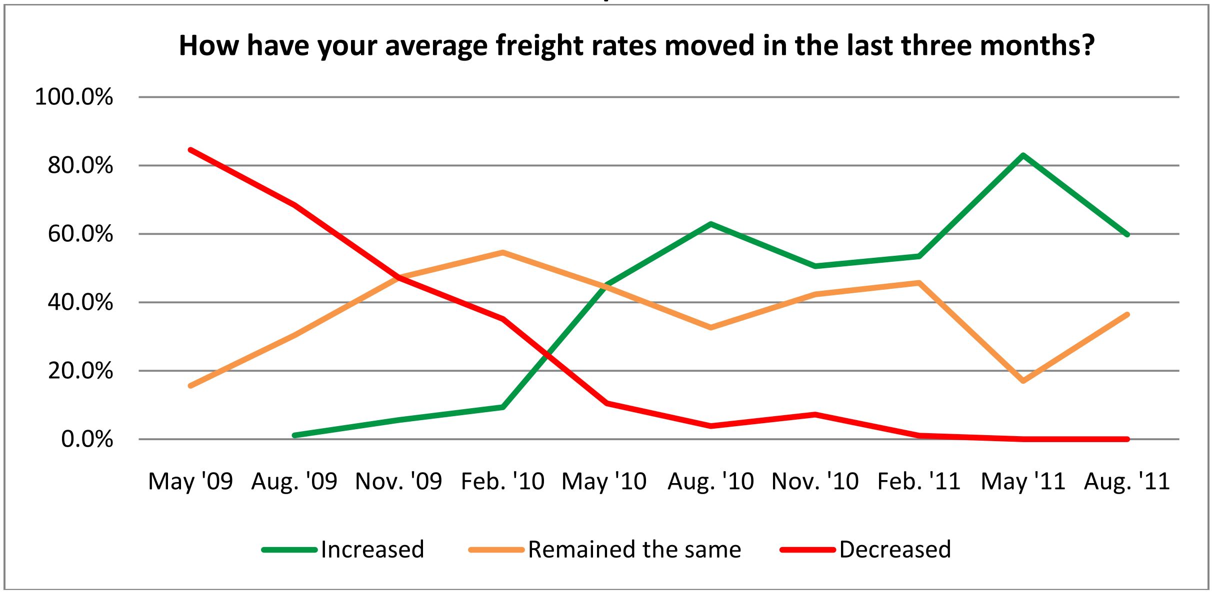
The relatively flat GDP in the first half, the general malaise in economic outlook, and the lack of consumer and business confidence is apparent throughout the responses to this quarter's survey. The share of carriers expecting business volumes to improve has been halved since February 2011's high point, with most of the decrease occurring since May of this year. Carriers' optimism that business volumes will increase over the next 12 months has decreased dramatically from a high of 92.4% in February '11, to 44.9% in August '11. In fact, most carrier executives shifted to a "remain the same" response over the last quarter, with 46.7% expecting that volumes will remain the same. The percent that think volumes will actually decrease has gone from 0% in February to 7.5% in August 2011.

Graph 1B



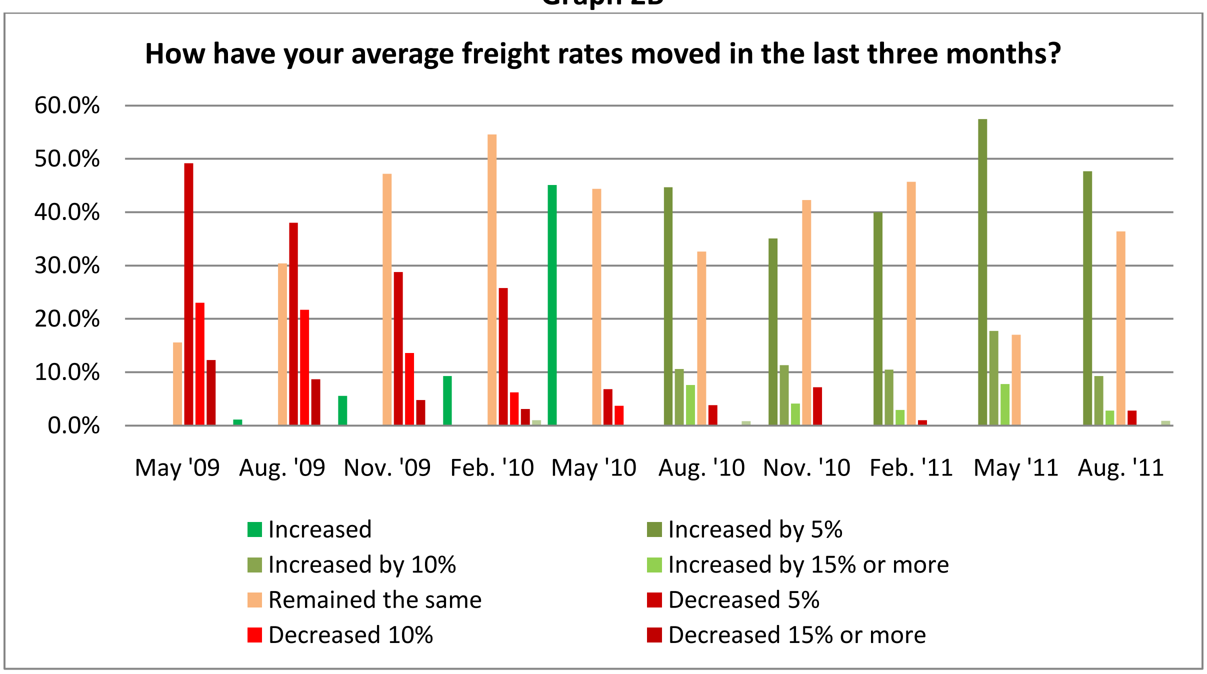
Smaller carriers are more optimistic about the future than are larger carriers (54.4% vs. 38.2%).

Graph 2A



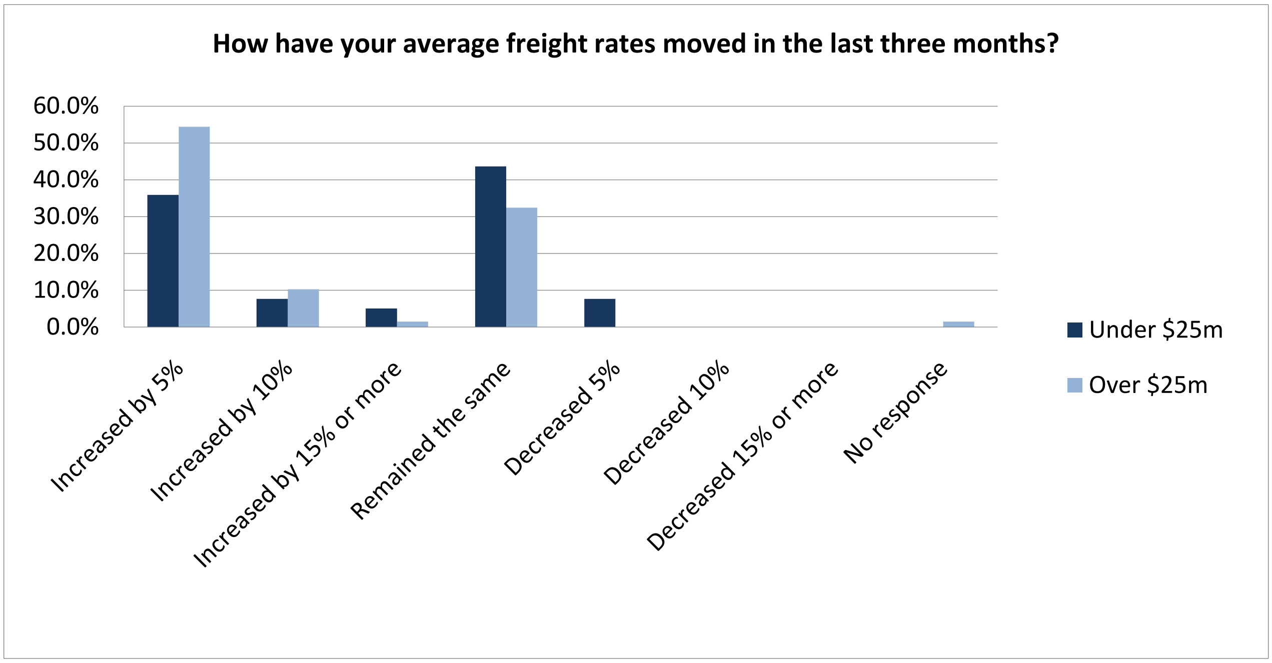
Rate increases are clearly on the move since February ’10 with a high point of 83% of respondents stating that rates have increased across all categories. In the past quarter however, those reporting rate increases (59.8%) and those expecting rates to remain the same (36.4%) are closer in value.

Graph 2B



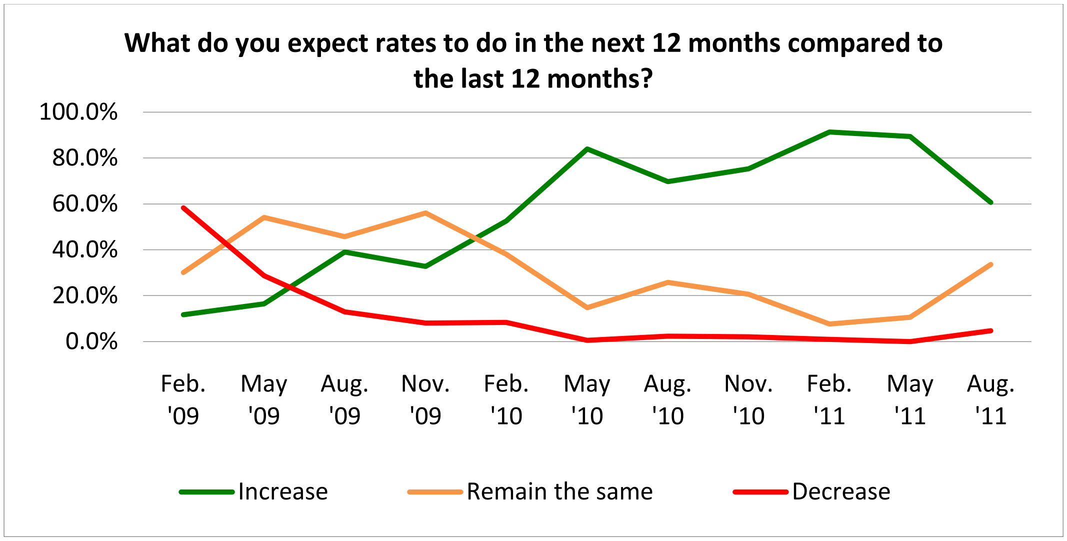
In order to determine just how much rates have increased (or decreased), TCP asks by how much. Forty-seven percent of the carriers have seen freight rates increase by 5%, down from 57.4% who reported such increases last quarter. However, 36.4% have seen rates remain the same, double from last quarter’s 17%.

Graph 2C



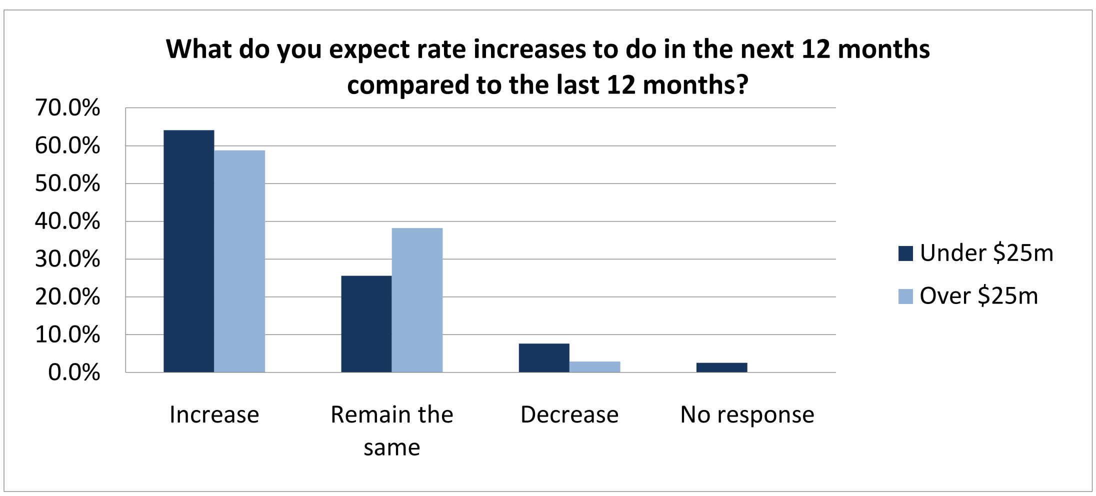
Larger carriers are seeing more rate movement than smaller carriers. In fact, 7.7% of the smaller carriers have seen a recent decrease in rates.

Graph 3A



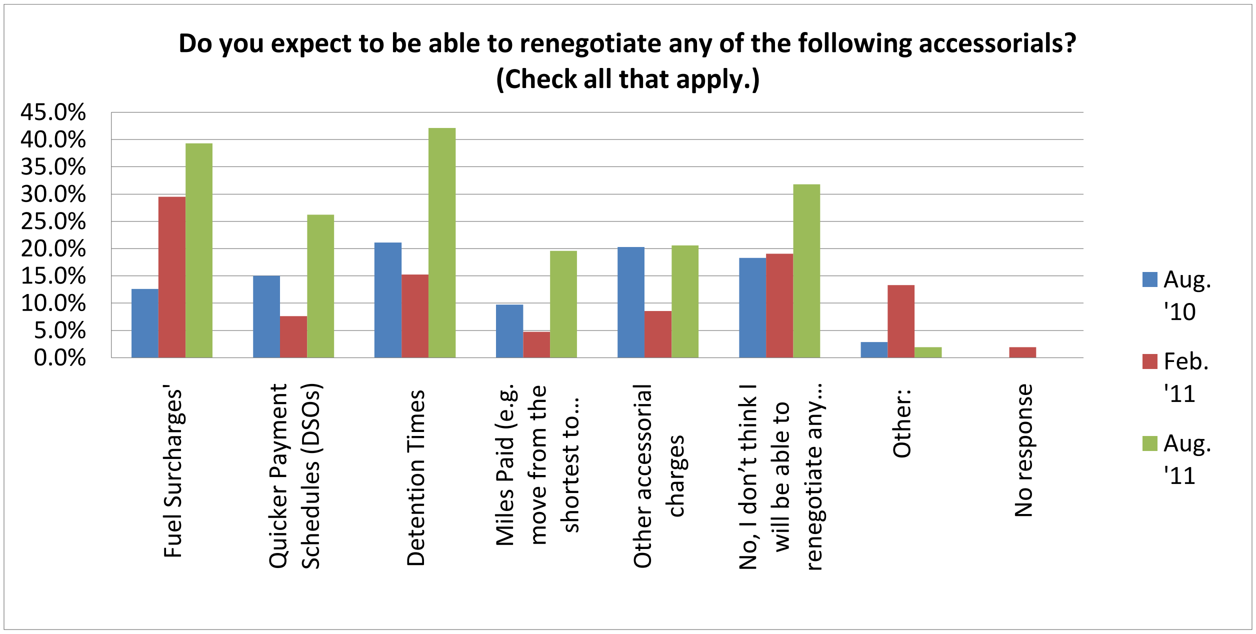
The percentage of carriers expecting rates to increase dropped from 89% to 60.7%, while the number expecting rates to remain the same increased from 10.6% to 33.6%, in line with the dampened volume decreases. Almost 5% expect rates to decrease, up from 0% last quarter. Given the near capacity level of fleet utilization, the demand side (volumes) will be the major determinant of rates in the short term. TCP believes there will be only slightly improved demand over the second half based on recent conversations and general surveys reporting a very slow recovery.

Graph 3B



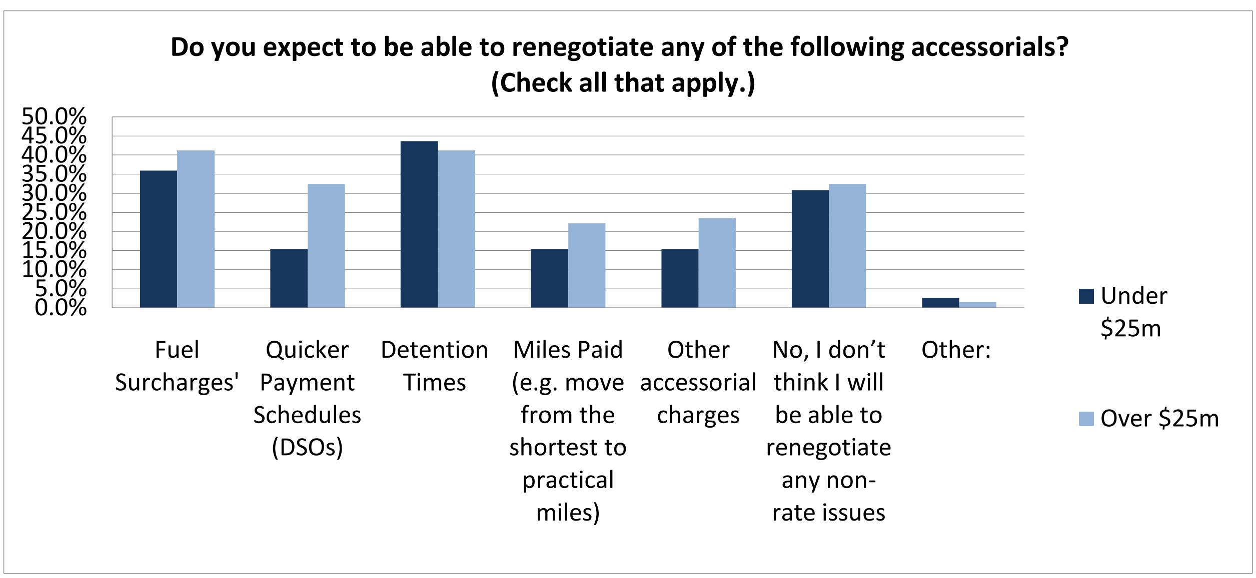
There is little difference in rate expectations between the two carrier size groups contrasted with the volume increase expectations where carriers under $25 million are more optimistic. In both rate and volume expectation questions, the specter of potential decreases is appearing.

Graph 4A



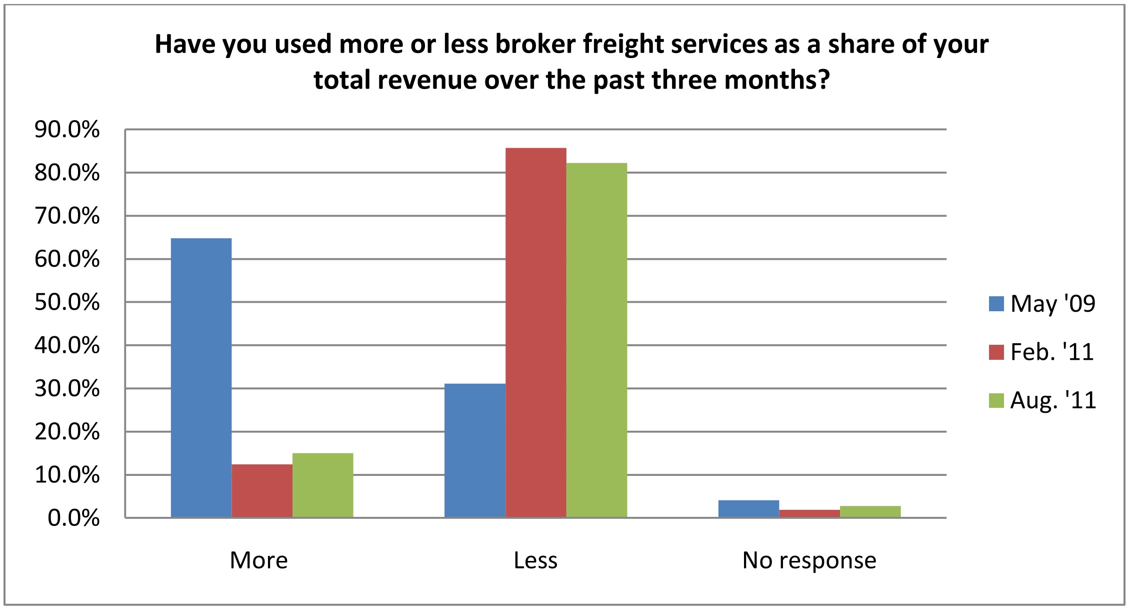
Seventy percent of the carriers think they will be able to renegotiate accessorials in all categories. Over 42% believe they can bargain for better detention times, up from 15% last quarter. Over 39% expect to renegotiate fuel surcharges. The biggest jump was the tripling of carriers who expect to be able to renegotiate the miles they are paid upon – up from 4.8% to 19.6%! It is likely that fuel surcharges could have the greatest favorable impact on carrier economics, with detention times becoming even more critical in the future given expected changes in hours of service and the mandating of Electronic On-Board Recorders (EOBRs). However, given the changed expectations about volumes and rates, it is not surprising that almost one-third of the carriers no longer think they will be able to renegotiate accessorials compared with only 19% last quarter.

Graph 4B



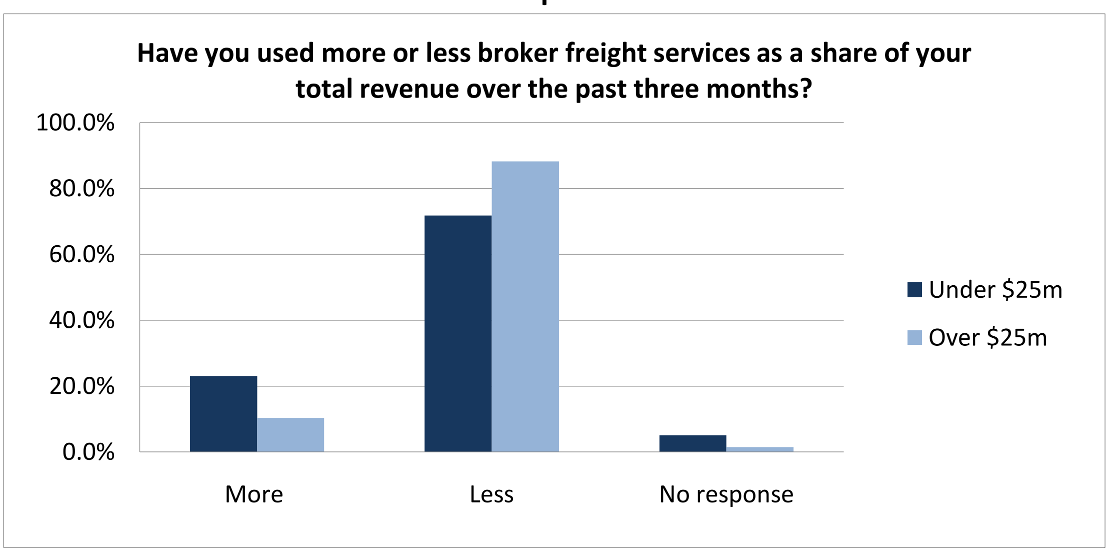
There wasn't much difference in size regarding the outlook for renegotiating accessorials. Carriers of all sizes generally face the same economics in their cost structures.

Graph 5A



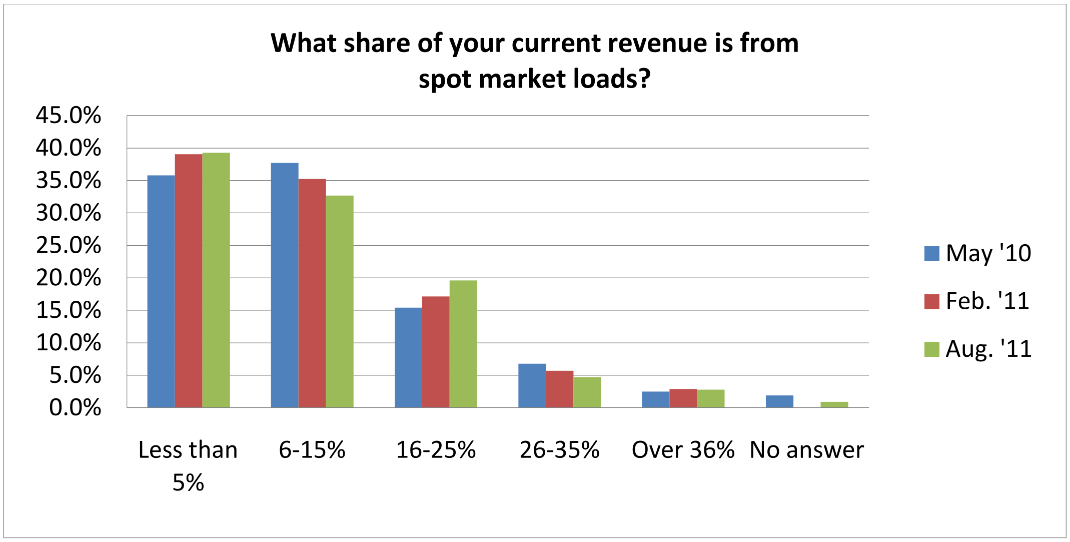
Compared with May of '09, when 65% of the carriers were using more brokerage services, today only 15% are using more. Clearly the fact that carriers have seen their own volumes and rates increase has contributed to this significant decline. Furthermore, in a supply-constrained environment, more questions are being raised about the viability of the asset-light brokerage model that depends upon someone else owning the truck, carrying all the risks, and receiving very little reward.

Graph 5B



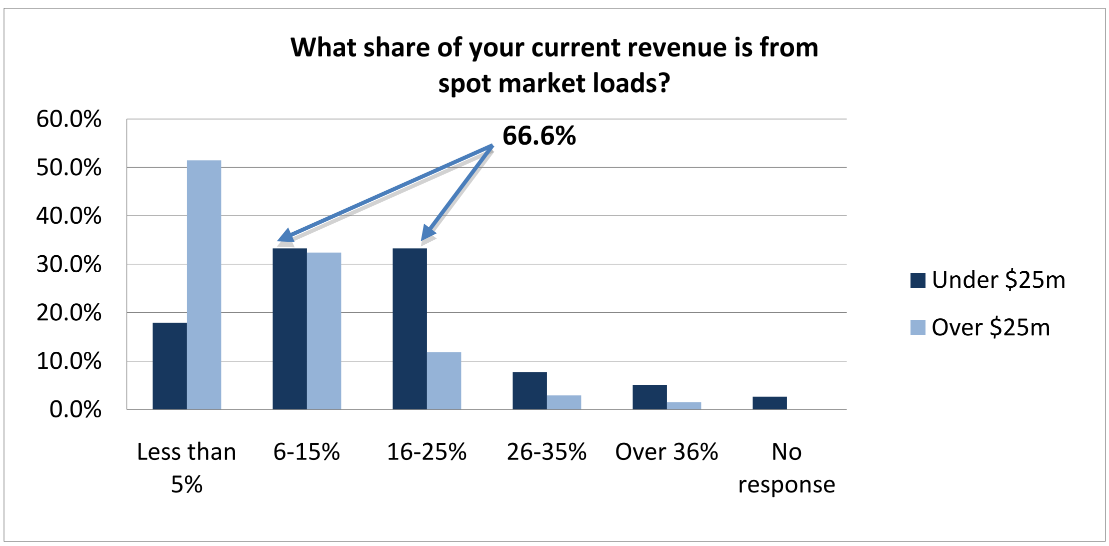
Larger carriers are less dependent on brokerage freight services than smaller carriers. Over 88% of the larger carriers are indicating less use of brokerage while 77% of the smaller carriers are reporting less use. Clearly, if the larger brokerage companies are going to rely on the smaller carriers, and 20% of the smaller carriers want to leave the industry in the next 18 months (as indicated in Graph 11B), the asset light brokerage business model will face serious constraints.

Graph 6A



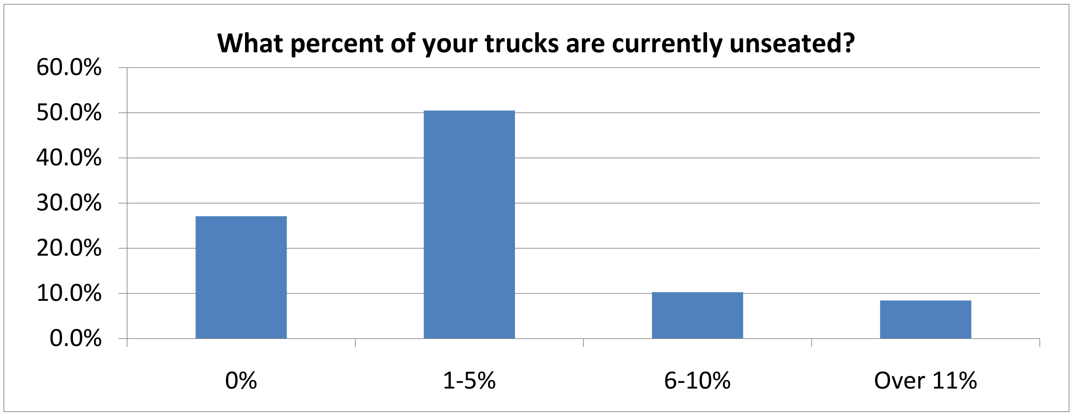
Slightly less than 40% of the carriers get let less than 5% of their load from the spot market. However, the percent of carriers securing 16-25% of their loads from the spot market has increased from 15.4% in May ’10 to 19.6% in August ’11. This again maybe a transitory effect of the improving spot market lane pricing relative to contract pricing.

Graph 6B



Smaller carriers are more dependent on the spot market than are larger carriers. Only half of the larger carriers depend upon the spot market for less than 5% of their load, compared with 2/3 of the smaller carriers who rely on the spot market for between 6-25% of their loads. Put another way, are small carriers more agile in taking advantage of the higher lane spot markets or are shippers relying more on larger carriers for a “one-stop” shopping requirement?

Graph 7A

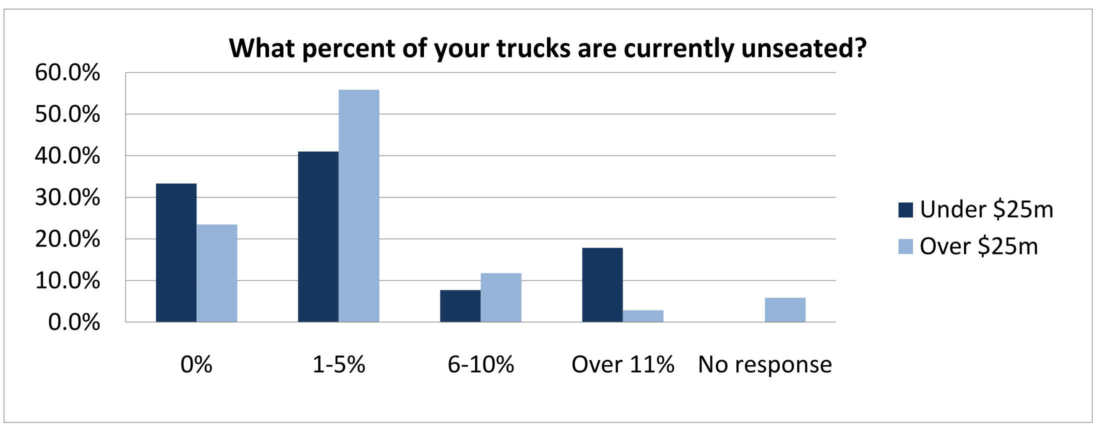


Almost 70% of the carriers are experiencing some level driver shortage. The largest percent is between 1-5%. With 9.1% unemployment and the reported Zero jobs growth on September 2, 2011, one can only wonder why so many truck driver job are open. We see three scenarios:

1. 1-5% unseated trucks represent a "structural unemployment percentage" for the truckload sector;
2. Unemployment benefits now last almost two years and drivers are purposely sitting out; and/or
3. Driver wages remain too low. Our survey last quarter showed that the vast majority of carrier executives believe driver wages must go higher to attract and retain quality drivers.

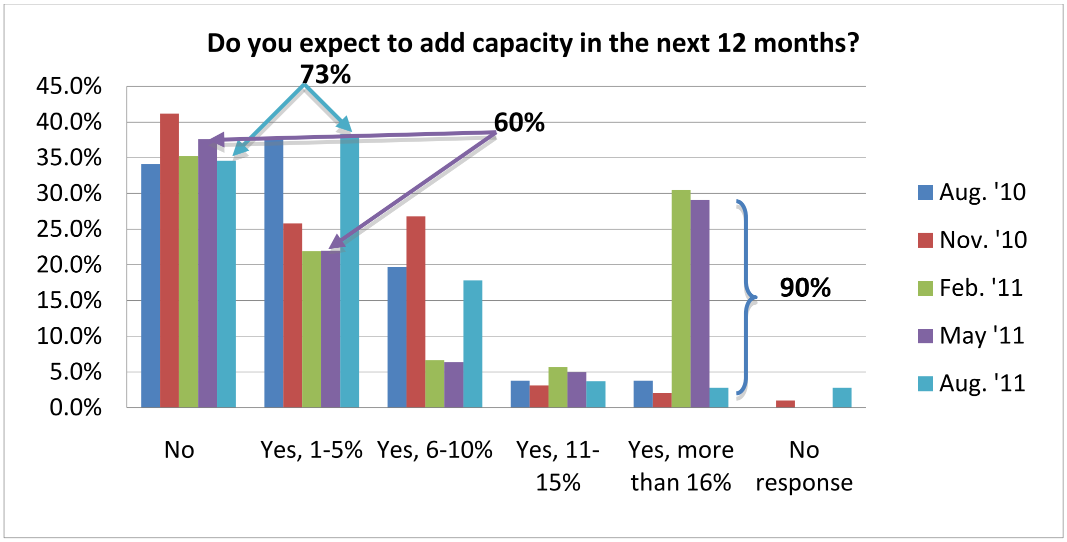
Regardless, until carriers can fill the trucks they have with qualified drivers, they are unlikely to add more capacity to their fleets.

Graph 7B



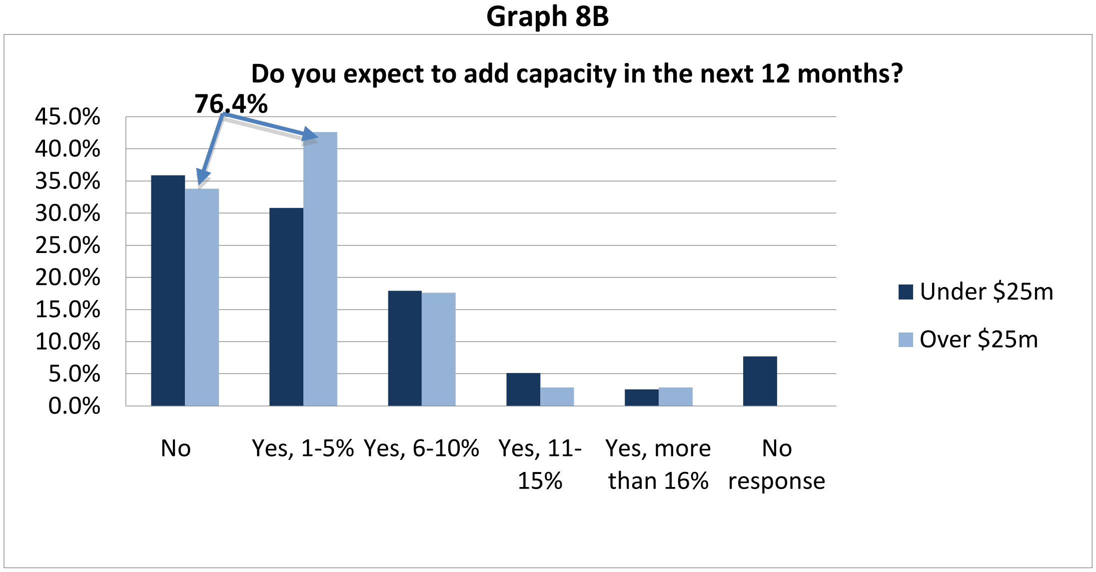
Thirty-three percent of the smaller carriers indicate that their trucks are fully seated compared to 23.5% of the larger carriers. Yet almost 12% of the smaller carriers indicate that over 11% of their trucks are unseated. One would have thought the larger carriers would have higher empty seats than the smaller carriers, given that smaller carriers tend to be more regional and are able to recall drivers by name, not numbers.

Graph 8A



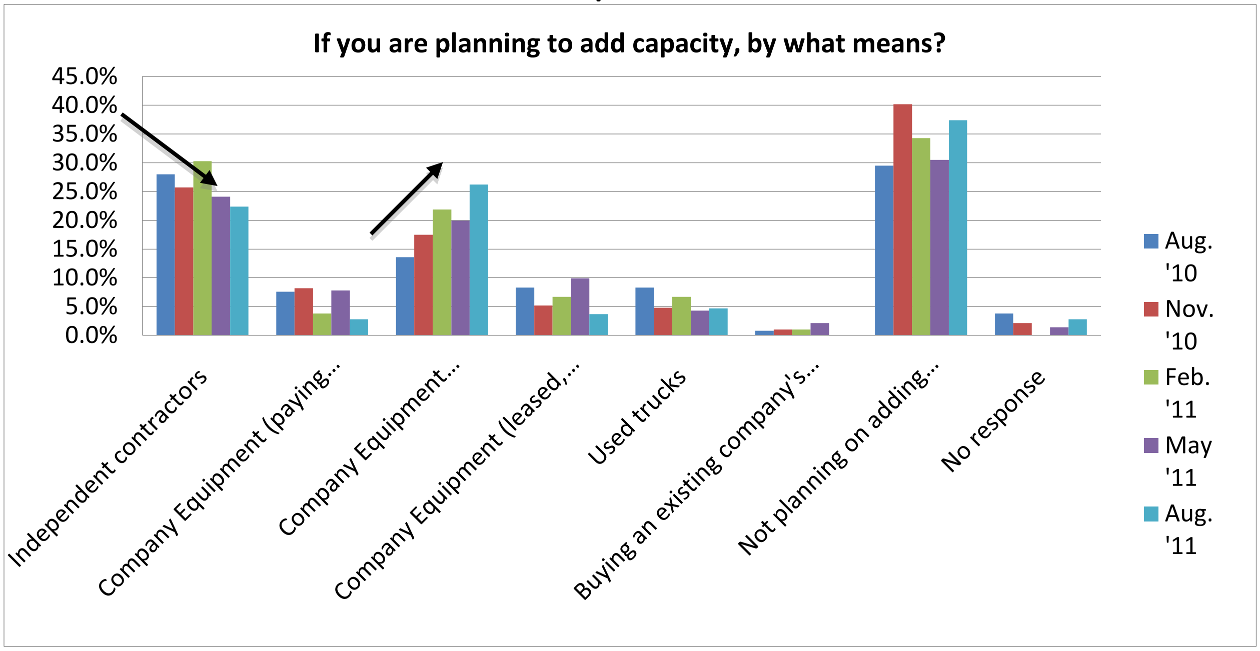
In light of the economic uncertainty, and given that 70% of the carriers are experiencing some level of unseated trucks (See Graph 7A), it's not surprising that 73% of the carriers expect to add no capacity or less than 5%. When comparing quarter to quarter, almost three fourths of the carriers responding expect to add no capacity or less than 5%, compared to 60% in the prior quarter. The dampened volume and rate outlook, coupled with the appearance of more unseated trucks, makes investment in new equipment less likely. The number expecting to add 16% or more capacity dropped a whopping 90% from 29.2% in May '11 compared to only 2.8% in August '11. Last quarter's survey respondents were split about 50/50 as to whether operating ratios are sufficient to justify new equipment investment. If the cancellation rate of new truck orders start rising, the capacity issue will likely be discussed more frequently.

Graph 8B



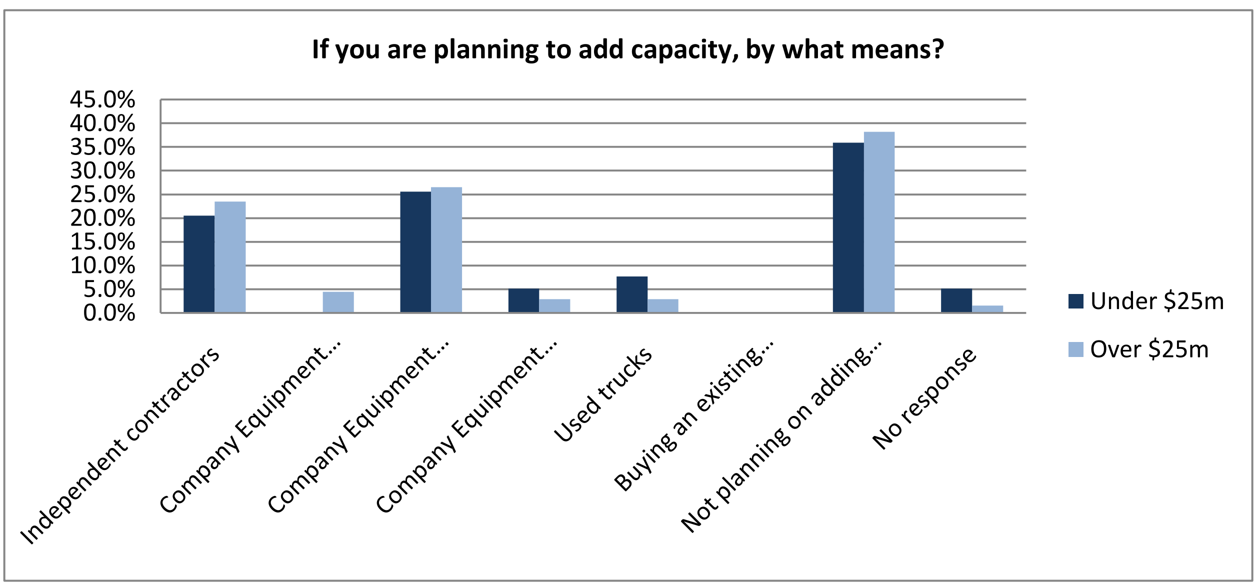
Seventy-six percent of the larger carriers expect to add less than 5% capacity compared with 67% of the smaller carriers. Clearly the capacity crunch is going to be felt across the board, if the larger carriers are not planning to add capacity.

Graph 9A



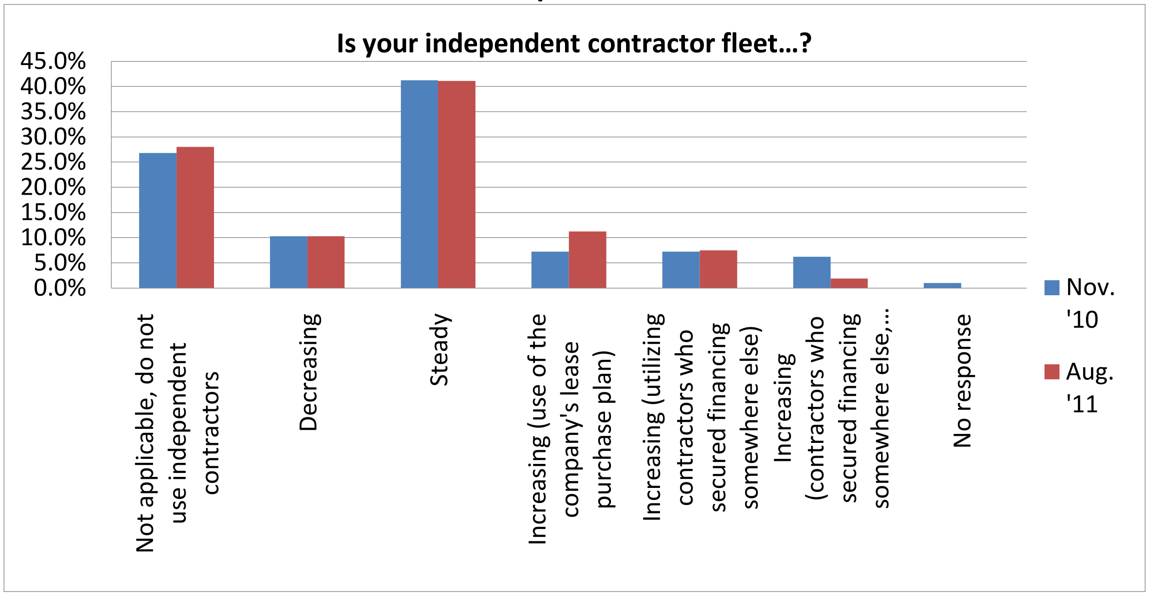
The number of carriers who expect to expand through the utilization of independent contractors has been trending down over the last year. In contrast, the percentage of companies expecting to grow through company equipment that is either financed or on a Trac Lease has been steadily increasing, doubling from 13.5% in August '10 to 26.2% in August '11. The number who wanted to grow through the acquisition of used trucks (while small) has also been cut in half (from 8.3% in August '10 to 4.7% in August '11), as the reported supply of used trucks is low with only higher average miles for sale.

Graph 9B



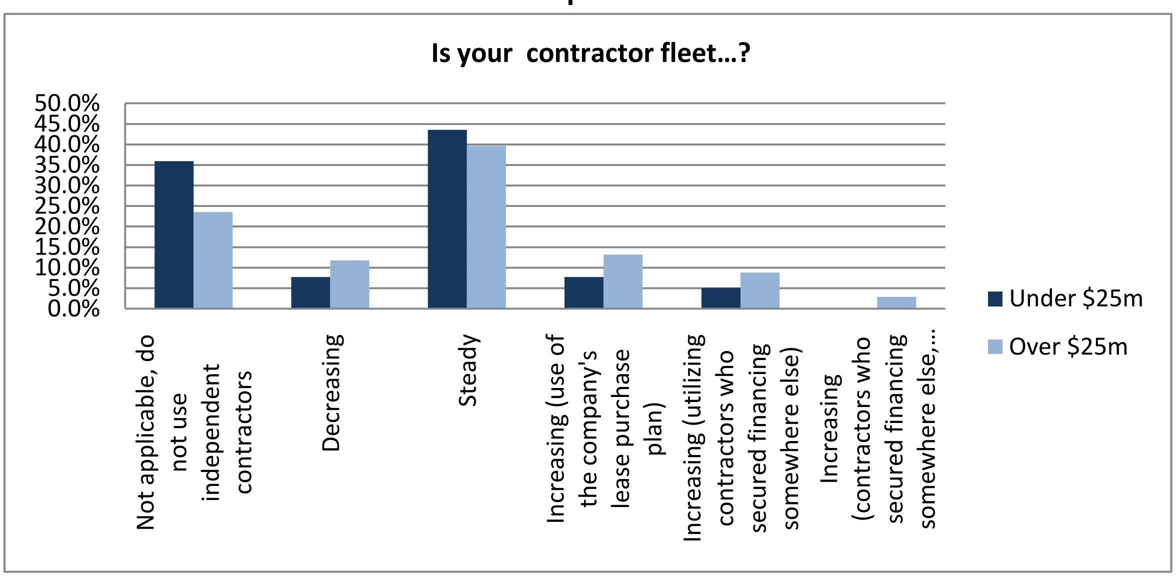
Small and large fleets are closely aligned in their plans for adding capacity.

Graph 10A



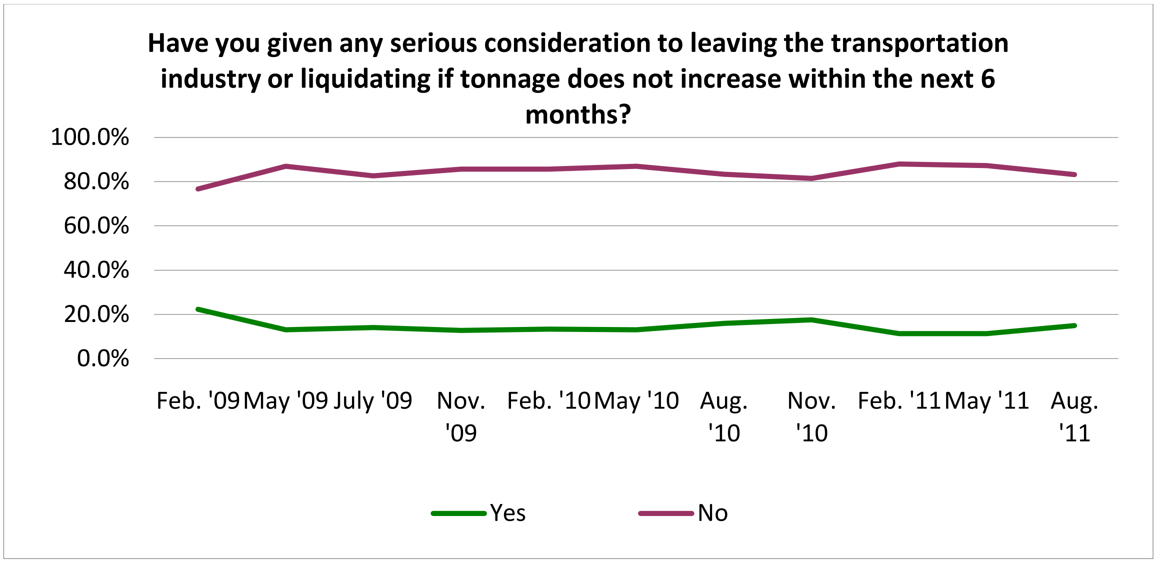
Over a quarter of the respondents do not use independent contractors. For those that do, over the last three quarters, there has been relatively little change in what has been happening to carriers' independent contactor fleets. Forty-one percent have seen their I/C fleets remain steady. However, the percent of fleets increasing through the use of lease purchase plans has increased 55%, from 7.2% to 11.2%.

Graph 10B



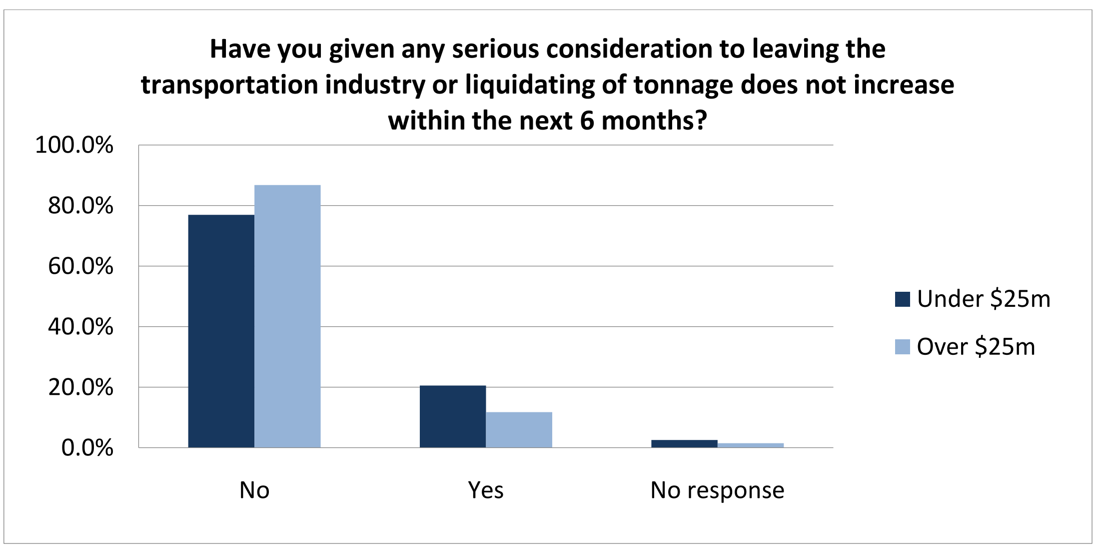
Smaller carriers are less likely to use independent contractors than larger carriers (35.9% vs. 23.5%). While larger fleets have been experiencing a reduction in the size of the contractor fleets (11.8% vs. 7.7%), they are more likely to utilize a lease purchase arrangements than smaller carriers (13.2% vs. 7.7%).

Graph 11A



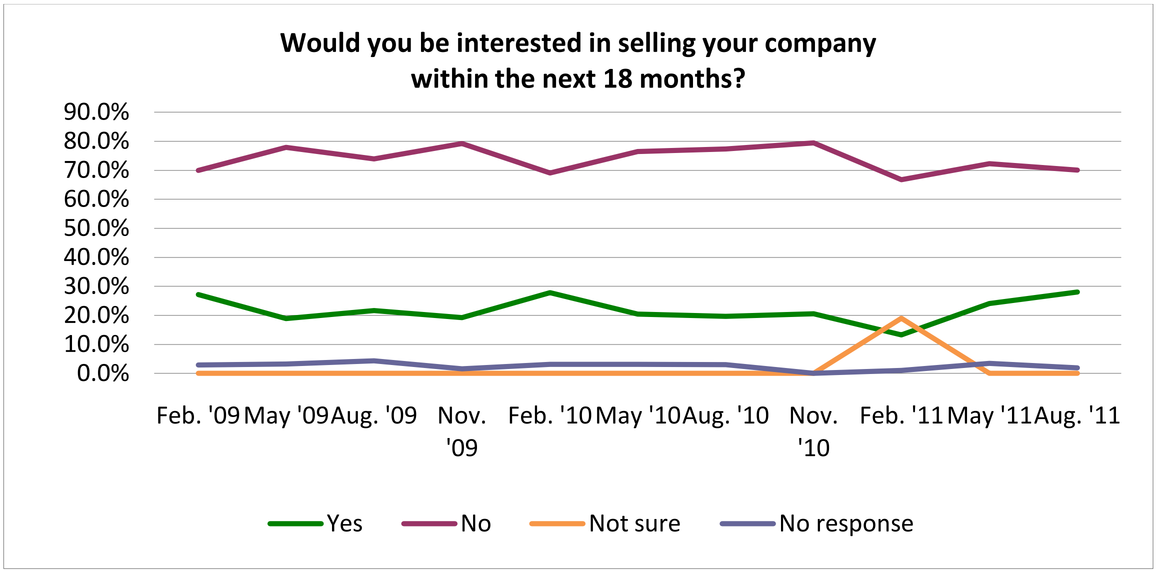
Given all the uncertainly regarding the economy, volumes, rates, drivers, and regulation, the number of carriers thinking about leaving the industry or liquidating in the next six months increased by 32% from 11.3% to 15%. But it is still below the all time high of 22.3% in February '09.

Graph 11B



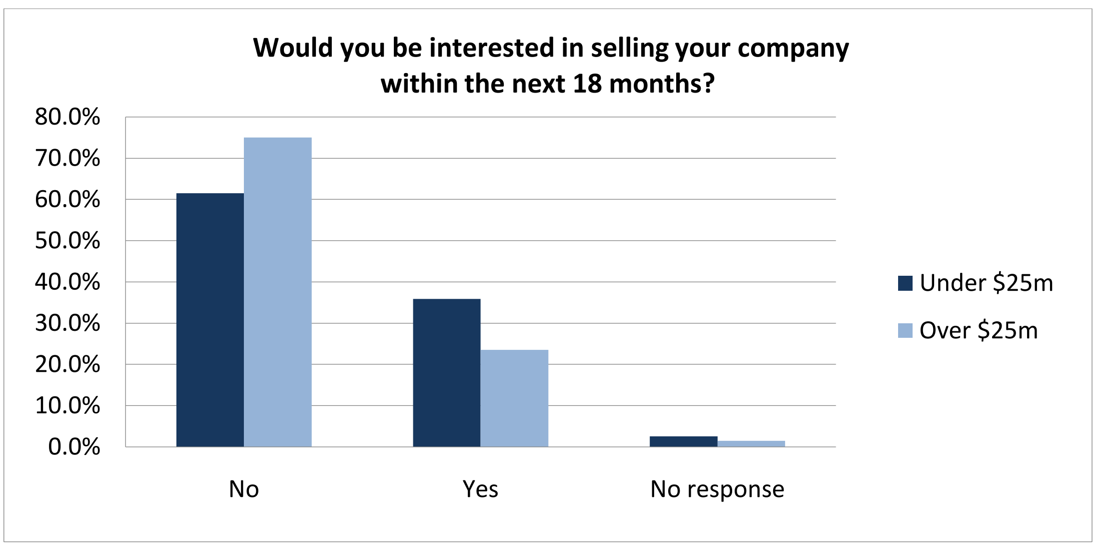
More small carriers are giving consideration to leaving the industry than larger carriers (20% vs. 11.8%).

Graph 12A



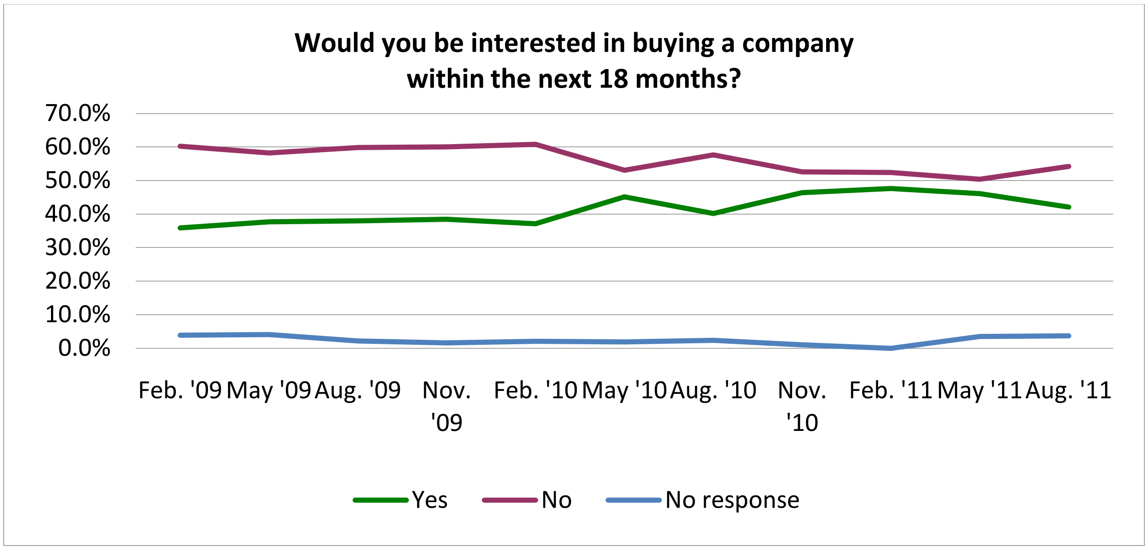
The number of carriers thinking about selling their company in the next 18 months increased slightly from 25.1% to 28.0%. However, this is the highest percentage interested in selling that our survey has recorded. This is likely related to dampened volume and rate expectations. Perhaps coupled with higher used equipment valuation, some carriers have been able to have positive equipment margins over the debt on trucks. At the same time, prices on publicly held carriers have slipped somewhat faster than the general stock market.

Graph 12B



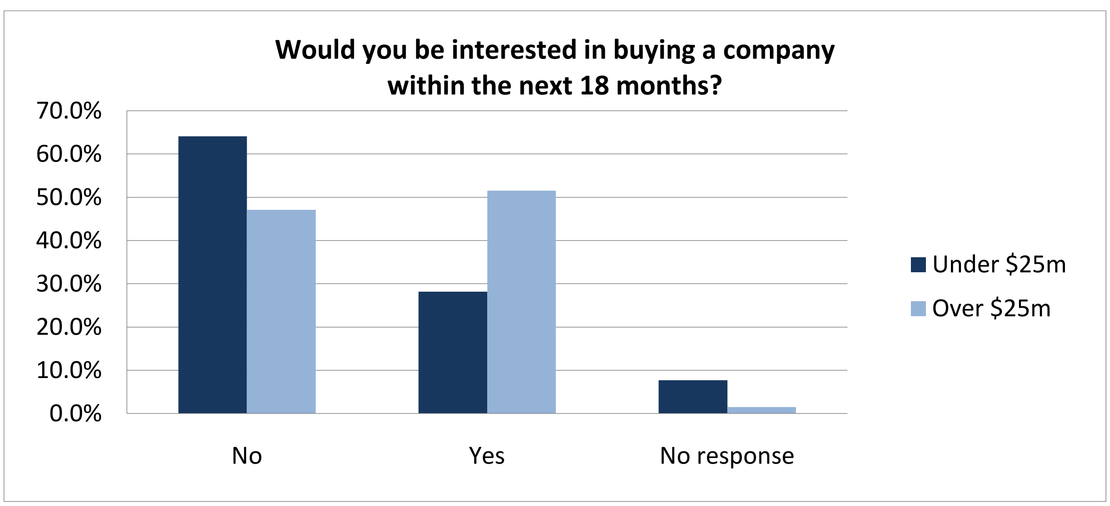
Over one-third (35.9%) of the smaller carriers are interested in selling their companies in the next 18 months, compared with almost a quarter (23.5%) of the larger companies.

Graph 13A



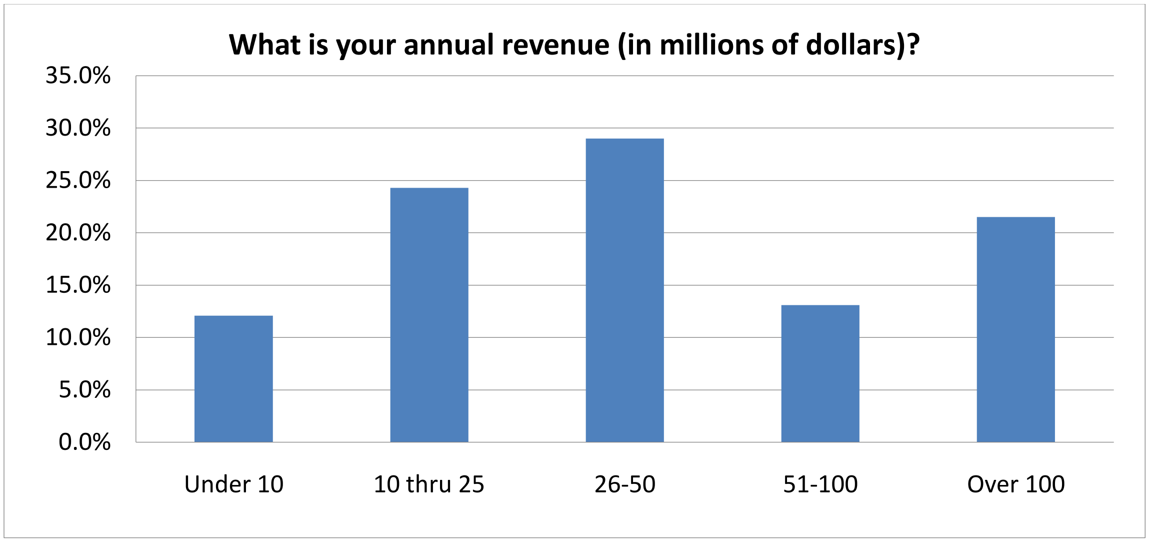
The number of companies interested in buying a company is down slightly from to 42.1% this quarter, from the all time high of 47.6% in February '11. The consistent dampening may be due to the volume and rate expectations, particularly for publicly held carriers whose drop in their own valuations would likely be reflected here to a certain degree.

Graph 13B



Over 50% of the larger carriers are interested in buying a company compared to only 28.2% of the smaller companies. Given the smaller carriers' concerns about volume, rates, and driver availability, it is not surprising few are interested in expanding through acquisition.

Graph 14



Graph 15